

## Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 DOE-11 H-01 INR-07 INT-05 L-03  
NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02  
SS-15 STR-07 TRSE-00 ACDA-12 EA-10 /124 W  
-----089668 301729Z /43

P R 301345Z JAN 78  
FM AMEMBASSY KUWAIT  
TO SECSTATE WASHDC PRIORITY 59  
INFO AMEMBASSY ABU DHABI  
AMCONSUL DHAHRAN  
AMEMBASSY DOHA  
AMEMBASSY JIDDA  
AMEMBASSY MANAMA  
AMEMBASSY TEHRAN

LIMITED OFFICIAL USE KUWAIT SECTION 1 OF 2 KUWAIT 0586

E.O. 11652: N/A  
TAGS: ENRG, KU  
SUBJECT: KUWAIT LPG NEGOTIATIONS AND REPORTED CARGO PREFERENCE MEASURES

REF: (A) STATE 006732 (NOTAL), (B) 77 STATE 259188 (NOTAL),  
(C) 77 KUWAIT 4317 (NOTAL), (D) 77 KUWAIT 3833 (NOTAL),  
(E) 77 KUWAIT 2663 (NOTAL), (F) 77 KUWAIT 2326 (NOTAL)

SUMMARY: FOLLOWING IN RESPONSE REFS A AND B: KUWAIT DOES NOT PRODUCE LIQUEFIED NATURAL GAS (LNG) AND HAS NO PLANS TO DO SO. IT HAS NO STATUTORY TANKER PREFERENCE REQUIREMENTS FOR TRANSPORT OF LNG OR OF LIQUEFIED PETROLEUM GAS (LPG). QUESTION OF POSSIBLE FUTURE TANKER PREFERENCE MEASURES IS HIGHLY COMPLEX AND UNRESOLVED ISSUE BETWEEN KUWAIT MINISTRY OF OIL AND 51 PERCENT PRIVATELY OWNED KUWAIT OIL TANKERS COMPANY (KOTC). KUWAITI SOURCES REPORT THAT POSSIBILITY OF

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NORTHERN NATURAL GAS SHIPPING ALL LPG PURCHASED FROM KUWAIT ON KUWAITI VESSELS IS A RESULT MORE OF NORTHERN INTEREST IN DISPOSING OF TWO UNUSED CARRIERS IT OWNS THAN OF STILL UNDETERMINED KUWAITI PREFERENCE REQUIREMENTS. END SUMMARY.

1. WE WERE SOMEWHAT SURPRISED BY PART OF INITIAL QUERY REF A SINCE POST HAS REPORTED EXTENSIVELY ON KUWAIT LPG DEVELOP-

MENTS REF : THRU F CONTAIN A FEW OF THESE REPORTS.

2. RE PARA 2 REF A, KUWAIT HAS NO CAPACITY FOR LNG LIQUIFICATION AND NO PLANS TO BUILD ANY LNG FACILITIES. AS PREVIOUSLY REPORTED, KUWAIT IS IN THE LAST STAGES OF CONSTRUCTING LPG RPT LPG PROCESSING FACILITIES. THESE SHOULD COME ON STREAM IN LATE 1978.

3. FOLLOWING IS IN RESPONSE TO CABLE QUERIES ON TANKER PREFERENCE AND MEMO FROM TRANSPORTATION INSTITUTE RECEIVED HERE JANUARY 25TH. TRANSPORTATION INSTITUTE MEMORANDUM STATES "KUWAIT'S CARGO PREFERENCE LAWS STIPULATE THAT 100 PERCENT OF ITS NATURAL GAS EXPORTS TO THE U.S. BE SHIPPED IN KUWAITI BOTTOMS. KUWAIT ALSO PROPOSED THAT AT LEAST 50 PERCENT OF THE LPG BE SHIPPED IN KOTC VESSELS".

4. THERE ARE NO KUWAIT CARGO PREFERENCE LAWS REGARDING NATURAL GAS EXPORTS. AUTHORITATIVE KUWAIT OIL MINISTRY AND KOTC SOURCES HAVE DESCRIBED THE HIGHLY FLUID SITUATION TO US AS FOLLOWS: FOLLOWING THE 1973 OIL PRICE RISE, KUWAIT'S MINISTRY OF OIL ORDERED FOUR LPG TANKERS AT PRICES REPORTED TO BE AS HIGH AS OVER \$65 MILLION PER TANKER. SUBSEQUENTLY THE BOTTOM FELL OUT OF THE TANKER MARKET AND THE OIL MINISTRY PROPOSED THAT A PRIVATE KUWAITI FIRM, THE KUWAIT OIL TANKERS COMPANY, TAKE OVER FOUR TANKERS AT THE CONTRACT COST. AS A SWEETENER, THE GOVERNMENT LIMITED OFFICIAL USE

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BOUGHT 49 PERCENT OF THE SHARES OF KOTC AND GAVE KOTC ASSURANCES THAT IT WOULD COVER KOTC DEFICITS. KOTC REPLIED THAT THE TANKERS WERE AT MOST WORTH \$33 MILLION A PIECE AT CURRENT WORLD PRICES. EITHER IT WOULD PAY THE WORLD PRICE FOR THE TANKERS OR ACCEPT THE ORIGINAL HIGH ACTUAL COST ONLY WITH A GOVERNMENT GUARANTEE TO COVER ALL LOSSES. KOTC FURTHER ASKED KOTC TO REQUIRE THAT LPG BE SHIPPED ON KUWAITI TANKERS IN ORDER TO GIVE IT PREFERENCE.

5. JAPANESE FIRMS ARE LIKELY TO TAKE NEARLY HALF OF THE INCREMENTAL 3.5 MILLION TONS OF LPG WHICH WILL BE ADDED TO KUWAIT'S PRESENT APPROXIMATELY 1.4 MILLION TONS ANNUAL PRODUCTION. HOWEVER, THEY HAVE BALKED AT ANY KUWAITI PREFERENCE REQUIREMENTS, SINCE THEY THEMSELVES GAVE A GLUT OF TANKERS ON THEIR HANDS. THIS LED TO AN OIL MINISTRY SUGGESTION THAT THERE BE ONLY A 20 PERCENT PREFERENCE REQUIREMENT VERSUS KOTC'S SUGGESTED 50 PERCENT. VARIOUS AMERICAN FIRMS NEGOTIATING WITH THE OIL MINISTRY FOR LPG PURCHASE HAVE INDICATED THEY WOULD HAVE NO PROBLEMS WITH POSSIBLE KUWAIT PREFERENCE REQUIREMENTS, SINCE THEY ARE NOT BURDENED WITH OWNERSHIP OF EXPENSIVE LPG CARRIERS.

6. IN THE CASE OF NORTHERN NATURAL GAS, KUWAITI SOURCES HAVE TOLD US THAT NORTHERN ALREADY HAS TAKEN DELIVERY OF A POLISH BUILT LPG TANKER, BUT THIS IS LAID UP FOR WANT OF CHARTERS. ANOTHER TANKER WILL BE DELIVERED IN JUNE BUT NO CHARTERS ARE IN SIGHT FOR IT EITHER. NORTHERN REPORT-EDLY THEREFORE HAS OFFERED TO SELL THE TANKERS TO KOTC AND THEN LEASE THEM BACK. ACCESS TO HALF MILLION TONS OF KUWAITI LPG PER YEAR PRESUMABLY WAS A FACTOR. NORTHERN'S REPORTED OFFER MAY HAVE LED TO REPORT THAT KUWAIT WOULD "REQUIRE" THAT 100 PERCENT OF LPG SHIPPED TO THE U.S. BE SHIPPED IN KUWAITI BOTTOMS.

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7. AS OF NOW THERE HAS BEEN NO RESOLUTION OF THE QUESTION OF HOW KUWAIT PLANS TO HANDLE LPG TANKERS, I.E. WHETHER KUWAIT'S OIL MINISTRY WILL OFFER KOTC THE TANKERS AT THE ORIGINAL PRICE OR THE CURRENT LOWER VALUE, AND WHAT, IF ANY, PREFERENCE WILL BE "REQUIRED", AND WHAT TANKER RATES WILL BE CHARGE. A FURTHER COMPLICATION IS THAT UNTIL THE QUESTION OF DEREGULATION OF NATURAL GAS IN THE UNITED STATES IS SETTLED, THERE DOES NOT SEEM TO BE ANY WAY THAT IMPORTATION OF LPG FROM KUWAIT TO THE UNITED STATES CAN BE ECONOMIC, GIVEN FREIGHT COSTS AND ARTIFICIALLY LOW GAS PRICES IN THE UNITED STATES. FINALLY, ENMITY BETWEEN KOTC'S POWERFUL CHAIRMAN AND KUWAIT'S OIL MINISTRY HINDERS

RESOLUTION OF THE QUESTION OF TANKER PRICES, TANKER RATES  
AND GOVERNMENT SUBSIDIES FOR KOTC.

8. GIVEN THE ABOVE HIGHLY COMPLEX SITUATION INVOLVING A  
NUMBER OF AS YET UNRESOLVED ISSUES, OUR BEST ANSWER TO  
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QUESTIONS POSED PARA

3 REF B IS THE FOLLOWING:

A. REPORTS WE HAVE FROM KUWAITI SOURCES INDICATE THAT  
USE OF KOTC SHIPS FOR HALXIOF NORTHERN NATURAL GAS SHIPMENTS  
IS MORE A RESULT OF NORHTERN'S INITIATIVE THAN ANY  
"REQUIREMENT" OF THE GOK, ESPECIALLY SINCE LATTER "REQUIREMENTS"  
HAVE NOT BEEN DETERMINED. NORTHERN NATURAL GAS DOES  
NOT HAVE REPRESENTATIVE IN KUWAIT. TRANSPORTATION INSTITUTE  
OR THE DEPARTMENT MAY WISH TO QUERY NORTHERN REGARDING  
ITS SIDE OF THE STORY.

B. AS WE UNDERSTAND IT, THERE HAS NOT BE A "DECISION  
TO REGISTER NORTHERN VESSELS UNDER KUWAITI FLAG".  
RATHER KUWAITI SOURCES INDICATE THAT NORTHERN HAS OFFERED  
TO SELL ITS VESSELS TO KUWAIT AND THEN LEASE THEM IF IT  
OBTAINS ACCESS TO KUWAITI LPG AT ACCEPTABLE PRICES.

9. AS IT HAS DONE IN THE PAST, EMBASSY WILL CONTINUE TO  
REPORT ON KUWAITI LPG DEVELOPMENTS. LOCAL PRESS MAY CONTINUE  
TO CONFUSE LNG WITH LPG IN ITS ARTICLES ON KUWAIT  
GAS DEVELOPMENTS. DEPARTMENT SHOULD TREAT ARTICLES ON  
THIS SUBJECT IN MIDDLE EAST ECONOMIC DIGEST (MEED) WITH  
CONSIDERABLE RESERVE. MEED HAS A TENDANCY TO REGURGITATE  
ARTICLES IT PICKS UP IN KTHE KUWAITI PRESS WITHOUT VERIFYING  
THEIR ACCURACY. GIVEN UNCERTAINTY OVER LPG PRICES IN  
THE UNITED STATE WE DOUBT THAT AMERICAN FIRMS ARE LIKELY  
TO REACH FINAL AGREEMENTS FOR LPG PURCHASE FROM KUWAIT  
IN NEAR FUTURE. THEY MAY SIGN LETTERS OF INTENT AGREEING  
TO PURCHASE LPG AT A PRICE "TO BE DETERMINED".  
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## Message Attributes

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